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13 **UNITED STATES BANKRUPTCY COURT**  
14 **DISTRICT OF NEVADA**

15 In re:

Case No.: BK-S-09-14814-LBR  
(Jointly Administered)

16 THE RHODES COMPANIES, LLC, aka

17 "Rhodes Homes," et al.,<sup>1</sup>

Debtors.

Chapter 11

18 Affects:

19 ☒ All Debtors

Hearing Date: November 24, 2009

Hearing Time: 1:30 p.m.

21 <sup>1</sup>The Debtors in these cases, along with their case numbers are: Heritage Land Company, LLC (Case  
22 No. 09-14778); The Rhodes Companies, LLC (Case No. 09-14814); Tribes Holdings, LLC (Case No. 09-14817);  
Apache Framing, LLC (Case No. 09-14818); Geronimo Plumbing LLC (Case No. 09-14820); Gung-Ho  
23 Concrete LLC (Case No. 09-14822); Bravo, Inc. (Case No. 09-14825); Elkhorn Partners, A Nevada Limited  
Partnership (Case No. 09-14828); Six Feathers Holdings, LLC (Case No. 09-14833); Elkhorn Investments, Inc.  
24 (Case No. 09-14837); Jarupa, LLC (Case No. 09-14839); Rhodes Realty, Inc. (Case No. 09-14841); C & J  
Holdings, Inc. (Case No. 09-14843); Rhodes Ranch General Partnership (Case No. 09-14844); Rhodes Design  
and Development Corporation (Case No. 09-14846); Parcel 20, LLC (Case No. 09-14848); Tuscany Acquisitions  
25 IV, LLC (Case No. 09-14849); Tuscany Acquisitions III, LLC (Case No. 09-14850); Tuscany Acquisitions II,  
LLC (Case No. 09-14852); Tuscany Acquisitions, LLC (Case No. 09-14853); Rhodes Ranch Golf Country Club,  
26 LLC (Case No. 09-14854); Overflow, LP (Case No. 09-14856); Wallboard, LP (Case No. 09-14858); Jackknife,  
LP (Case No. 09-14860); Batcave, LP (Case No. 09-14861); Chalkline, LP (Case No. 09-14862); Glynda, LP  
27 (Case No. 09-14865); Tick, LP (Case No. 09-14866); Rhodes Arizona Properties, LLC (Case No. 09-14868);  
Rhodes Homes Arizona, L.L.C. (Case No. 09-14882); Tuscany Golf Country Club, LLC (Case No. 09-14884);  
28 and Pinnacle Grading, LLC (Case No. 09-14887).

*Electronically Filed  
December 1, 2009*

☐ Affects the following Debtor(s)

Courtroom 1

**SECOND AMENDED MODIFIED  
DISCLOSURE STATEMENT FOR THE  
SECOND AMENDED MODIFIED PLAN  
OF REORGANIZATION PURSUANT TO  
CHAPTER 11 OF THE UNITED STATES  
BANKRUPTCY CODE FOR THE  
RHODES COMPANIES, LLC, ET AL.**

THIS DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE SECOND AMENDED PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE FOR THE RHODES COMPANIES, LLC, ET AL. (THE "PLAN"), CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATED TO THE PLAN, CERTAIN EVENTS IN THE DEBTORS' CHAPTER 11 CASES AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE FIRST LIEN STEERING COMMITTEE BELIEVES THAT THESE SUMMARIES ARE FAIR AND ACCURATE, THESE SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. THE INFORMATION INCLUDED HEREIN IS FOR PURPOSES OF SOLICITING ACCEPTANCE OF THE PLAN AND SHOULD NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER AND HOW TO VOTE ON THE PLAN. THE SUMMARIES OF THE FINANCIAL INFORMATION AND THE DOCUMENTS THAT ARE ATTACHED HERETO OR INCORPORATED BY REFERENCE HEREIN ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH INFORMATION AND DOCUMENTS. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THE DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION INCORPORATED HEREIN BY REFERENCE, THE PLAN OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION, AS THE CASE MAY BE, SHALL GOVERN FOR ALL PURPOSES. FACTUAL INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS' MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE FIRST LIEN STEERING COMMITTEE DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

THE STATEMENTS AND FINANCIAL INFORMATION CONTAINED HEREIN ARE MADE AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. HOLDERS OF CLAIMS AND INTERESTS REVIEWING THE DISCLOSURE STATEMENT SHOULD NOT INFER THAT THERE HAVE BEEN NO CHANGES IN THE FACTS SET FORTH HEREIN BETWEEN THE DATE HEREOF AND THE TIME OF SUCH REVIEW. EACH HOLDER OF A CLAIM ENTITLED TO VOTE ON THE

1 PLAN SHOULD CAREFULLY REVIEW THE PLAN, THE DISCLOSURE STATEMENT,  
2 AND EXHIBITS TO THE PLAN AND DISCLOSURE STATEMENT IN THEIR  
3 ENTIRETY BEFORE CASTING A BALLOT. THE DISCLOSURE STATEMENT DOES  
4 NOT CONSTITUTE LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. ANY  
PERSONS DESIRING ANY SUCH ADVICE OR OTHER ADVICE SHOULD CONSULT  
WITH THEIR OWN ADVISORS.

5 NO PARTY IS AUTHORIZED TO GIVE ANY INFORMATION WITH RESPECT  
6 TO THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THE DISCLOSURE  
7 STATEMENT. NO REPRESENTATIONS CONCERNING THE DEBTORS OR THE  
8 VALUE OF THEIR PROPERTY HAVE BEEN AUTHORIZED BY THE FIRST LIEN  
9 STEERING COMMITTEE OTHER THAN AS SET FORTH IN THE DISCLOSURE  
10 STATEMENT. ANY INFORMATION, REPRESENTATIONS OR INDUCEMENTS  
11 MADE TO OBTAIN AN ACCEPTANCE OF THE PLAN THAT ARE OTHER THAN, OR  
INCONSISTENT WITH, THE INFORMATION CONTAINED HEREIN AND IN THE  
PLAN SHOULD NOT BE RELIED UPON BY ANY HOLDER OF A CLAIM OR  
INTEREST.

12 WITH RESPECT TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS  
13 AND OTHER PENDING, THREATENED OR POTENTIAL LITIGATION OR ACTIONS,  
14 THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE AND MAY NOT BE  
15 CONSTRUED AS AN ADMISSION OF FACT, LIABILITY, STIPULATION OR  
16 WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT  
NEGOTIATIONS AND PROTECTED BY RULE 408 OF THE FEDERAL RULES OF  
EVIDENCE.

17 THE DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR  
18 DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE  
19 COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE ACCURACY  
OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

20 ALTHOUGH THE FIRST LIEN STEERING COMMITTEE HAS USED ITS BEST  
21 EFFORTS TO ENSURE THE ACCURACY OF THE FINANCIAL INFORMATION  
22 PROVIDED IN THE DISCLOSURE STATEMENT, THE FINANCIAL INFORMATION  
CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THE DISCLOSURE  
STATEMENT HAS NOT BEEN AUDITED.

23 THE PROJECTIONS CONTAINED IN EXHIBITS D AND E TO THE  
24 DISCLOSURE STATEMENT AND REFERENCED IN ARTICLE V OF THE  
25 DISCLOSURE STATEMENT HAVE BEEN PREPARED BY THE FIRST LIEN  
26 STEERING COMMITTEE WITH THE ASSISTANCE OF ITS ADVISORS. THESE  
27 PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE  
28 NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS THAT,  
THOUGH CONSIDERED REASONABLE BY THE FIRST LIEN STEERING  
COMMITTEE, MAY NOT BE REALIZED AND ARE INHERENTLY SUBJECT TO  
SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY,

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1 MARKET AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF  
2 WHICH ARE BEYOND THE FIRST LIEN STEERING COMMITTEE'S CONTROL. THE  
3 FIRST LIEN STEERING COMMITTEE CAUTIONS THAT NO REPRESENTATIONS  
4 CAN BE MADE AS TO THE ACCURACY OF THESE PROJECTIONS OR TO THE  
5 ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS  
6 INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND  
7 CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE  
8 PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED  
9 OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE  
10 OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A  
11 MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. THE  
12 PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR  
13 OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR.

14 SEE ARTICLE VI OF THE DISCLOSURE STATEMENT, ENTITLED "CERTAIN  
15 FACTORS TO BE CONSIDERED PRIOR TO VOTING," FOR A DISCUSSION OF  
16 CERTAIN CONSIDERATIONS IN CONNECTION WITH A DECISION BY A HOLDER  
17 OF AN IMPAIRED CLAIM TO ACCEPT OR REJECT THE PLAN.

18 THE DISCLOSURE STATEMENT HAS BEEN DETERMINED BY THE  
19 BANKRUPTCY COURT TO CONTAIN ADEQUATE INFORMATION AS REQUIRED  
20 BY SECTION 1125 OF TITLE 11 OF THE UNITED STATES CODE, 11 U.S.C. §§ 101 -  
21 1532 (THE "BANKRUPTCY CODE"), WHICH DETERMINATION DOES NOT  
22 CONSTITUTE A RECOMMENDATION OR APPROVAL OF THE PLAN.

23 UNLESS OTHERWISE STATED, ANY CAPITALIZED TERM USED HEREIN  
24 SHALL HAVE THE MEANING ASSIGNED TO SUCH TERM HEREIN OR, IF NO  
25 MEANING IS SO ASSIGNED, THE MEANING ASSIGNED TO SUCH TERM IN THE  
26 PLAN.

27 THE BANKRUPTCY COURT HAS SCHEDULED THE CONFIRMATION  
28 HEARING TO COMMENCE ON JANUARY 14, 2010 AT 9:00 A.M. PREVAILING  
PACIFIC TIME BEFORE THE HONORABLE LINDA B. RIEGLE, UNITED STATES  
BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT FOR  
THE DISTRICT OF NEVADA, IN COURTROOM 1 IN THE FOLEY FEDERAL  
BUILDING LOCATED AT 300 LAS VEGAS BOULEVARD SOUTH, LAS VEGAS,  
NEVADA 89101. THE CONFIRMATION HEARING MAY BE ADJOURNED FROM  
TIME TO TIME BY THE BANKRUPTCY COURT WITHOUT FURTHER NOTICE  
OTHER THAN AN ANNOUNCEMENT OF THE ADJOURNED DATE MADE AT  
THE CONFIRMATION HEARING OR ANY ADJOURNMENT THEREOF.

OBJECTIONS TO CONFIRMATION OF THE PLAN MUST BE FILED AND  
SERVED ON OR BEFORE JANUARY 4, 2010, IN ACCORDANCE WITH THE  
SOLICITATION NOTICE THAT THE FIRST LIEN STEERING COMMITTEE  
FILED AND SERVED ON HOLDERS OF CLAIMS, HOLDERS OF INTERESTS AND  
OTHER PARTIES IN INTEREST. IF OBJECTIONS TO CONFIRMATION ARE

1 NOT TIMELY SERVED AND FILED IN COMPLIANCE WITH THE  
2 SOLICITATION NOTICE, THEY MAY NOT BE CONSIDERED BY THE  
3 BANKRUPTCY COURT.  
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**Article I.  
SUMMARY**

The following summary is qualified in its entirety by the more detailed information contained in the Plan and elsewhere in the Disclosure Statement.

On either March 31, 2009 or April, 1, 2009 (collectively, the "Petition Date"), The Rhodes Companies, LLC and certain of its affiliates and subsidiaries (collectively, the "Debtors") each filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Prior to and after the Petition Date, the Debtors operated one of the largest independent homebuilding businesses in Las Vegas and Nevada.

The Disclosure Statement is being furnished by the First Lien Steering Committee pursuant to section 1125 of the Bankruptcy Code in connection with: (a) the solicitation of votes for the acceptance or rejection of the Plan and (b) the confirmation hearing (the "Confirmation Hearing"), which is scheduled for January 14, 2010 at 9:00 a.m. Pacific Time (the "Confirmation Hearing Date"). A copy of the Plan is annexed hereto as Exhibit A and incorporated by reference herein.

The Disclosure Statement describes certain aspects of the Plan, including the treatment of Claims and Interests, and describes certain aspects of the Debtors' operations, projections and other related matters.

**A. Plan Overview**

The Plan is the product of extensive negotiations and a settlement reached among the First Lien Steering Committee, the Debtors, James Rhodes and his non-Debtor affiliates (collectively, with James Rhodes, the "Rhodes Entities"), the Creditors' Committee and the Second Lien Agent. The settlement was reached following a three day mediation session held on August 17, 24 and 25, 2009 before the Honorable Richard Neiter, United States Bankruptcy Court, Central District of California (the "Mediation Settlement"). The First Lien Agent also attended the mediation session but is not a party to the Mediation Settlement. As a result of this Mediation Settlement, the Plan contemplates that, upon the Debtors' emergence from chapter 11, the Debtors will continue to operate as a going concern homebuilder primarily in the Las Vegas market. The owners of the Debtors after they emerge from chapter 11 will be the First Lien Lenders. Holders of general unsecured claims (including the First Lien Lenders and Second Lien Lenders on account of their deficiency claims) will receive interests in a litigation trust unless their claims are listed on Exhibit H to the Disclosure Statement, in which case their claims may be purchased for up to 100 cents on the dollar for a full cash recovery to the extent those claims are not disputed and become Allowed. The litigation trust will analyze and, if appropriate, pursue claims and causes of action belonging to the Debtors that were not part of the collateral securing the Debtors' prepetition secured debt, which claims and causes of action shall be transferred to the litigation trust on the effective date of the Plan. The First Lien Steering Committee believes that these claims and causes of action include claims against the Rhodes Entities that are not expressly released under the Plan. A list of the Rhodes Entities is set forth on Attachment A to the Mediation Settlement Term Sheet.

The Plan contemplates and is predicated upon the substantive consolidation of the Debtors' chapter 11 cases into a single proceeding solely for the purposes of the chapter 11 cases and all actions with respect to confirmation, consummation and implementation of the Plan as set forth in more detail in Article IV below. The First Lien Steering Committee believes that the Plan provides the basis for the maximum recoveries possible for all constituents and that if the Plan is not confirmed, unsecured creditors will receive little to no recovery on account of their claims.

#### B. Settlement Overview

The primary terms of the Mediation Settlement include the following (the terms of the settlement are set forth in greater detail on the Mediation Term Sheet attached as Exhibit 1 to the Plan):

- Upon the Debtors' emergence from chapter 11, the Debtors, as reorganized (the "Reorganized Debtors"), will be owned by the First Lien Lenders. In addition to receiving the equity of the Reorganized Debtors, the First Lien Lenders will receive their pro rata share of (i) \$50 million in new secured notes, (ii) \$1.5 million in cash from the proceeds of their collateral and (iii) interests in the litigation trust on account of their unsecured deficiency claims.
- The Debtors' Second Lien Lenders will receive their pro rata share of the following on account of their claims if they vote in favor of the Plan: (i) 50% of the net proceeds of the Stanley Engineering Litigation and (ii) litigation trust interests on account of their unsecured deficiency claims. In addition, if the Second Lien Lenders vote in favor of the Plan, the Reorganized Debtors will pay the reasonable fees and expenses of counsel to the agent for the Second Lien Lenders in an amount not to exceed \$500,000. If the Second Lien Lenders do not vote in favor of the Plan, they will receive only litigation trust interests on account of their unsecured deficiency claims.
- The First Lien Lenders will use the \$1.5 million cash payment referenced above to purchase the claims of the unsecured creditors listed on Exhibit H to this Disclosure Statement to the extent that such claims are not disputed and are Allowed, which will result in such creditors receiving a cash payment of 100 cents on account of their allowed claims against the Debtors. If the Plan is not confirmed, the claim purchases will not happen and unsecured creditors listed on Exhibit H to this Disclosure Statement will likely receive little to no recovery on account of their claims.
- Unsecured creditors whose claims are not purchased by the First Lien Lenders will receive interests in the litigation trust on account of their allowed claims. The terms of the litigation trust are set forth in the draft Litigation Trust Agreement which is attached as Exhibit I to this Disclosure Statement.
- The number of interests in the litigation trust to be received by unsecured creditors, First Lien Lenders and Second Lien Lenders will be determined by the amount of each applicable creditor's unsecured claim as compared to the total amount of unsecured claims.

- 1 • The litigation trust will be funded initially with \$100,000 by the Reorganized Debtors.

2 The litigation trust will analyze and, if deemed appropriate by the Litigation Trustee,

3 pursue claims and causes of action that have been transferred to the litigation trust

4 under the Plan. These potential claims and causes of action include those claims and

5 causes of action belonging to the Debtors against any third party not specifically

6 released under the Plan and that are not part of the First Lien Lenders' collateral. For a

7 list of categories of claims and potential causes of action, see Article I.C. of this

8 Disclosure Statement regarding potential claims and causes of action against the

9 Rhodes Entities and Exhibit G to the Disclosure Statement for a list of potential claims

10 and causes of action against third parties, including service providers and vendors. If a

11 claim is purchased by the First Lien Lenders pursuant to the Plan, however, the

12 Debtors will waive any claims for preference recovery under section 547 of the

13 Bankruptcy Code on account of those claims that are purchased at the request of the

14 Creditors Committee. As stated in more detail below, the recovery on account of these

15 potential claims and causes of action are highly speculative. The First Lien Lenders

16 estimate that recovery by the General Unsecured Claims will be approximately 3.2%

17 under the Plan, but there can be no guarantee that the recovery will be that high.
- 18 • The Rhodes Entities will transfer the Rhodes Ranch Golf Course (through the equity

19 of the non-Debtor Rhodes Entities that own the Rhodes Ranch Golf Course) to the

20 Reorganized Debtors. The most recent appraisal for the Rhodes Ranch Golf Course

21 valued the Golf Course at approximately \$7.9 million. The Reorganized Debtors will

22 assume any third party debt on the Rhodes Ranch Golf Course, up to a maximum

23 amount of \$5.9 million. The Reorganized Debtors may, under certain circumstances,

24 require Rhodes to purchase the Rhodes Ranch Golf Course any time between four (4)

25 and eight (8) years from the Effective Date for \$5.9 million in cash. The Rhodes

26 Entities will have the right to repurchase the Rhodes Ranch Golf Course for \$5.9

27 million after eight (8) years subject to certain terms and conditions. James Rhodes

28 will contribute his asserted \$2.4 million loan to the entity that owns the Rhodes Ranch

Golf Course and indemnify the Debtors, the Reorganized Debtors, Newco and the

entity that owns the Rhodes Ranch Golf Course from any liability arising from the

contribution of such loan.
- The Rhodes Entities will pay \$3.5 million in cash to the Reorganized Debtors, which

will be used to fund distributions under the Plan and provide working capital to the

extent of any excess.
- The Rhodes Entities will cooperate with the Reorganized Debtors in connection with

certain matters related to the Reorganized Debtors' continued home-building

operations including, without limitation, matters pertinent to (i) HOA boards, (ii)

contractor licenses, and (iii) the maintenance of performance bonds.
- The Rhodes Entities will receive a limited release under the Plan. The release will be

limited to claims and causes of action arising under chapter 5 of the Bankruptcy Code

(i.e., preferential transfers and fraudulent transfers) solely to the extent that the

transactions to which such claims and causes of action relate have been expressly

disclosed in either the statements of financial affairs filed by the Debtors with the

Bankruptcy Court or Schedule B to the settlement term sheet which is attached as Exhibit 1 to the Plan. Any claims or causes of action against the Rhodes Entities that belong to the Debtors' estates that are not expressly released under the Plan will be transferred to the litigation trust.

- Any allowed claims that the Rhodes Entities have against the Debtors' Estates will be treated as general unsecured claims and will not be subject to subordination. The Rhodes Entities will also be permitted to assert that they have the right to setoff any allowed claims they have against the Debtors' Estates against any claims that the Debtors' Estates have against the Rhodes Entities.
- The Rhodes Entities will also receive the Debtors' non-core assets located in Arizona as set forth on Attachment D to Exhibit 1 to the Plan or otherwise set forth in the stock and asset purchase agreement pursuant to which such transfer shall be effectuated, which assets are not necessary for the Debtors' reorganization plan and are completely landlocked by holdings of the Rhodes Entities. These assets will be transferred free and clear of any third party creditor claims (which third party creditor claims will remain assertable against the Debtors' Estates). All of these Arizona assets constitute collateral securing the Debtors' obligations to the First Lien Lenders and Second Lien Lenders. The First Lien Steering Committee believes that these assets are worth approximately \$1 million. The Arizona Assets shall be transferred through the Rhodes Entities' acquisition of the stock of Rhodes Arizona Properties LLC and Elkhorn Investments, Inc., as reorganized, and certain assets of Rhodes Homes Arizona LLC. Any non-real property assets or assets not listed on Attachment D to the Mediation Term Sheet that are titled in Rhodes Arizona Properties LLC or Elkhorn Investments, Inc. shall be transferred to Newco pursuant to the stock and asset transfer agreement. To the extent any real property assets located in Arizona are titled in any Debtor other than Rhodes Arizona Properties LLC, Elkhorn Investments, Inc. or Rhodes Homes Arizona, such real property assets shall be transferred to the Rhodes Entities pursuant to the stock and asset transfer agreement.
- The First Lien Steering Committee and the Rhodes Entities will structure the Plan in a manner that is tax advantageous for the Rhodes Entities; provided, that, such structure does not create any tax liabilities for the Debtors or the First Lien Lenders.

C. Potential Claims Against the Rhodes Entities

On April 7, 2009, the First Lien Steering Committee moved for the appointment of a chapter 11 trustee (the "Trustee Motion"). The Trustee Motion was based, in part, on allegations of questionable and unlawful business dealings, and suspicions concerning the propriety of Mr. Rhodes' conduct as the Debtors' President, as detailed in a report prepared by a nationally recognized firm retained by the First Lien Agent to conduct an investigation into the Debtors' business operations (the "Rhodes Report"). In light of the allegations contained in the Rhodes Report, and as a result of Mr. Rhodes' conduct during the prepetition negotiations, the First Lien Steering Committee did not believe that Mr. Rhodes had been acting in accordance with his fiduciary duties. Thus, the First Lien Steering Committee Filed the Trustee Motion.

1 The Rhodes Entities and the Debtors opposed the Trustee Motion and objected to the  
 2 Rhodes Report as containing unsubstantiated allegations and hearsay. The Debtors provided  
 3 extensive discovery and a deposition at the request of the First Lien Steering Committee.  
 4 Prior to the hearing on this matter, the First Lien Steering Committee took the Trustee Motion  
 off calendar in light of the discovery produced and the progress the parties were making on  
 negotiations over the plan of reorganization.

5 The allegations contained in the Trustee and Rhodes Report form the basis of potential  
 6 claims against the Rhodes Entities. Among the potential claims are the following:

- 7 • Claims for breach of fiduciary duty;
- 8 • Claims for misappropriation of Debtor assets for personal use;
- 9 • Claims for usurping corporate opportunity for the benefit of competing interests;
- 10 • Claims for mismanagement of the Debtors' operations;
- 11 • Claims for fraudulent transfers (to the extent not expressly released under the  
 12 Plan);
- 13 • Claims for the diversion of corporate resources for the benefit of competing  
 14 interests.

15 Additional discovery and analysis will be required to be performed by the Litigation  
 16 Trustee before any determination can be made whether the foregoing claims or any other  
 17 claims are colorable and should be pursued by the litigation trust against the Rhodes Entities.  
 18 The litigation trust will undertake a detailed analysis of any potential claims before making a  
 19 determination on whether to pursue any litigation against the Rhodes Entities. While it is  
 20 impossible at this time to predict with any certainty whether the foregoing claims or any other  
 21 claims will be prosecuted and, if they are prosecuted, whether they will be successful, the  
 22 First Lien Steering Committee believes that prosecution of claims against the Rhodes Entities  
 may yield up to \$10 million or more in judgments in favor of the litigation trust. However,  
 such claims could also yield no proceeds if they are unsuccessful, or if the Rhodes Entities'  
 approximately \$10.6 million in asserted claims are determined to be valid claims and are  
 permitted to be used as offsets against any liabilities that the Rhodes Entities may be  
 determined to have against the Debtors.

23 The Rhodes Entities do not believe that viable claims or causes of action exist against  
 24 them and they will vigorously defend any litigation based on the allegations contained in the  
 25 Trustee Motion or otherwise, which allegations the Rhodes Entities assert are baseless and  
 premised on inadmissible hearsay.

#### 26 D. The Debtors' Principal Assets and Indebtedness

27 The principal assets of the Debtors include their homebuilding assets, which include  
 28 inventory of undeveloped land and developed lots, and constructed homes (sold and unsold).  
 The Debtors' principal indebtedness includes: (1) First Lien Lender Secured Claims; (2)

Second Lien Lender Secured Claims; (3) Other Secured Claims; (4) Priority Non-Tax Claims; (5) General Unsecured Claims; (6) Rhodes Entities Claims; (7) First Lien Lender Deficiency Claims; (8) Second Lien Lender Deficiency Claims; (9) Insured Claims; (10) Subordinated Claims; and (11) Intercompany Claims.

#### E. Treatment of Claims and Interests

Except for unclassified Administrative Claims and Priority Tax Claims, the Plan divides all Claims against the Debtors into various Classes. The table set forth below summarizes the Classes of Claims and Interests under the Plan, the treatment of Claims and Interests and projected recovery for Holders of Allowed Claims in such Classes and the entitlement of Holders of Claims in such Classes to vote to accept or reject the Plan.

The allowance, classification and treatment of all Allowed Claims and Interests and the respective distributions and treatments under the Plan take into account and conform to the relative priority and rights of the Claims and Interests in each Class in connection with any contractual, legal and equitable subordination rights relating thereto, whether arising under general principles of equitable subordination, section 510 of the Bankruptcy Code or otherwise. Pursuant to section 510 of the Bankruptcy Code, the Reorganized Debtors reserve the right to reclassify any Allowed Claim or Interest in accordance with any contractual, legal or equitable subordination relating thereto.

#### 1. Summary and Treatment of Allowed Unclassified Claims

ESTIMATED AMOUNT OR VALUE OF CLAIMS (CONSOLIDATED BASIS)		TREATMENT FOR ALLOWED CLAIMS
DESCRIPTION		
Administrative Claims	\$750,000	Each Allowed Administrative Claim shall be paid in full, in Cash. Allowed Administrative Claims include costs incurred in the operation of the Debtors' businesses after the Petition Date, the allowed fees and expenses of Professionals retained by the Debtors and the Creditors' Committee and the fees due to the United States Trustee pursuant to 28 U.S.C. § 1930.
Priority Tax Claims	\$125,000	Allowed Priority Tax Claims shall be paid in full, in Cash.

#### 2. Summary and Treatment of Allowed Classified Claims

ESTIMATED AMOUNT OR VALUE OF CLAIMS (CONSOLIDATED BASIS)		TREATMENT FOR ALLOWED CLAIMS/PROJECTED RECOVERY/STATUS/VOTING RIGHTS
CLASS NO.	DESCRIPTION	
A-1	First Lien Lender	\$325,947,566 Each of the First Lien Lenders (or its Permitted

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One Bryant Park

New York, New York 10036

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CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS (CONSOLIDATED BASIS)	TREATMENT FOR ALLOWED CLAIMS/PROJECTED RECOVERY/STATUS/VOTING RIGHTS
	Secured Claims		Nominee) shall receive on account of its Secured Claims, (w) its pro rata share of \$1.5 million in Cash from the proceeds of the First Lien Lenders' Collateral, (x) its pro rata share of 100% of the New First Lien Notes, and (y) its pro rata share of 100% of the Newco Equity Interests (subject to dilution for any Newco Equity Interests issued pursuant to a Management and Director Equity Incentive Plan). The \$1.5 million payment to the First Lien Lenders shall be allocated and deemed paid to the First Lien Lenders in accordance with Article VII.F. of the Plan.
			<u>Projected Recovery on Account of Secured Claims:</u> 28.9%
			<u>Status:</u> Impaired
			<u>Voting:</u> Entitled to Vote
A-2	Second Lien Lender Secured Claims	\$72,848,357.65	If the Class of Second Lien Lender Secured Claims votes in favor of the Plan, each of the Second Lien Lenders (or its Permitted Nominee) shall receive its pro rata share of 50% of the net proceeds of the Stanley Engineering Litigation on account of its Secured Claims without a reduction on account of the reasonable fees and expenses of Ropes & Gray LLP and local counsel for the Second Lien Agent, subject to an aggregate cap of \$500,000, each of which such fees shall be paid in Cash to the Second Lien Agent on the Effective Date. If the Class of Second Lien Lender Secured Claims votes against the Plan, each of the Second Lien Lenders shall receive no recovery on account of such Secured Claims.
			<u>Projected Recovery on Account of Secured Claims:</u> 2.8%
			<u>Status:</u> Impaired
			<u>Voting:</u> Entitled to Vote
A-3	Other Secured Claims	\$2.3 million	To the extent not satisfied by the Debtors prior to the Effective Date, Holders of Other Secured Claims shall either (i) have such Claims reinstated and rendered Unimpaired, (ii) receive Cash in an amount equal to such Claims, including any interest required to be paid, (iii) receive the Collateral securing such Claim and any interest required to be paid, or (iv) receive such treatment as to which such Holder and the Reorganized Debtors or the Debtors, with the consent of the First Lien Steering Committee (and in consultation with the First Lien Agent and Second

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 New York, New York 10036  
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CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS (CONSOLIDATED BASIS)	TREATMENT FOR ALLOWED CLAIMS/PROJECTED RECOVERY/STATUS/VOTING RIGHTS
			Lien Agent), otherwise agree.
			<u>Projected Recovery:</u> 100%
			<u>Status:</u> Unimpaired
			<u>Voting:</u> Deemed to Accept
B	Priority Non-Tax Claims	\$0	Each Holder of an Allowed Priority Non-Tax Claim shall be paid in full, in Cash unless the Holder of an Allowed Priority Non-Tax Claim and the Reorganized Debtors or the Debtors, with the consent of the First Lien Steering Committee (and in consultation with the First Lien Agent and Second Lien Agent), otherwise agree.
			<u>Projected Recovery:</u> N/A
			<u>Status:</u> Unimpaired
			<u>Voting:</u> Deemed to Accept
C-1	General Unsecured Claims	Estimated asserted amount \$15 million +	On the Effective Date, each Holder of an Allowed General Unsecured Claim (including any Allowed Rhodes Entities Claims) shall receive its pro rata share of the Litigation Trust Interests allocable to the Holders of General Unsecured Claims on account of its Allowed Claim.
			<u>Projected Recovery:</u> 3.2%
			<u>Status:</u> Impaired
			<u>Voting:</u> Entitled to Vote
C-2	First Lien Lender Deficiency Claims	\$231,649,680	On the Effective Date, each Holder of an Allowed First Lien Lender Deficiency Claim shall receive its pro rata share of the Litigation Trust Interests allocable to the Holders of First Lien Lender Deficiency Claims on account of its Allowed Claim.
			<u>Projected Recovery:</u> 3.2%
			<u>Status:</u> Impaired
			<u>Voting:</u> Entitled to Vote
C-3	Second Lien Lender Deficiency Claims	\$70,348,357.65	On the Effective Date, each Holder of an Allowed Second Lien Lender Deficiency Claim shall receive its pro rata share of the Litigation Trust Interests allocable to the Holders of Second Lien Lender Deficiency Claims on account of its Allowed Claim. If the Class of Second Lien Lender Secured Claims votes against the Plan, the distribution of Litigation Trust Interests allocable to the Holders of Second Lien Lender Deficiency Claims shall be subject to the reasonable fees and expenses of Ropes & Gray LLP and local counsel for the Second Lien Agent.

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS (CONSOLIDATED BASIS)	TREATMENT FOR ALLOWED CLAIMS/PROJECTED RECOVERY/STATUS/VOTING RIGHTS
			<u>Projected Recovery:</u> 3.2% <u>Status:</u> Impaired <u>Voting:</u> Entitled to Vote
C-4	Subordinated Claims	\$0	Claims subordinated under applicable law shall not receive any recovery on account of their Claims.
			<u>Projected Recovery:</u> N/A <u>Status:</u> Impaired <u>Voting:</u> Deemed to Reject
D	Old Equity Interests		Each holder of an Old Equity Interest shall not be entitled to, and shall not receive or retain any property or interest in property on account of such Old Equity Interest.
			<u>Projected Recovery:</u> 0% <u>Status:</u> Impaired <u>Voting:</u> Deemed to Reject
E	Intercompany Claims	\$500,000,000	At the election of the Reorganized Debtors, Intercompany Claims will be (i) reinstated, in full or in part, (ii) resolved through set-off, distribution, or contribution, in full or in part, or (iii) cancelled and discharged, in full or in part, in which case such discharged and satisfied portion shall be eliminated and the Holders thereof shall not be entitled to, and shall not receive or retain, any property or interest in property on account of such portion under the Plan.
			<u>Projected Recovery:</u> 0% <u>Status:</u> Impaired <u>Voting:</u> Deemed to Reject

#### F. Claims Estimates

Upon information and belief, as of September 18, 2009, the Claims and Solicitation Agent had received approximately 461 Proofs of Claim and the total amount of Claims Filed against one or more of the Debtors was over \$12.7 billion, of which \$12 billion are duplicate Claims that will be automatically deemed to be eliminated upon the Effective Date. Additionally, the First Lien Steering Committee believes that many of the Filed Proofs of Claim are invalid, untimely, and/or overstated. Therefore, the Debtors, the Reorganized Debtors and/or the First Lien Steering Committee will object to such Claims.

1 The First Lien Steering Committee estimates that, at the conclusion of the Claims  
 2 objection, reconciliation and resolution process, the aggregate amount of Claims will be as set  
 3 forth on the charts in Article I.E. The Claims Register, which reflects all Claims Filed against  
 each Debtor Entity, is available for inspection at [www.omnimgt.com/rhodes](http://www.omnimgt.com/rhodes).

4 The Claims estimates are approximate and based upon numerous assumptions and  
 5 represent significant reductions in the aggregate face amount of Claims Filed. There is no  
 6 guarantee that the ultimate amount of each category of Claims will conform to the estimates  
 7 stated herein, and the majority of Claims underlying such estimates are subject to challenge.  
 8 A number of Claims have been asserted in unliquidated amounts. The First Lien Steering  
 9 Committee believes that certain Claims are without merit, and the Debtors, the Reorganized  
 10 Debtors and/or the First Lien Steering Committee will object to all such Claims. There can be  
 no assurance, however, that Claim objections will achieve the significant reductions in Claims  
 set forth above. Moreover, additional Claims may be Filed or identified during the Claims  
 objection, reconciliation and resolution process that may materially affect the foregoing  
 estimates.

11 G. Questions and Answers Regarding this Disclosure Statement and the Plan

12 1. **What is Chapter 11?**

13 Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code.  
 14 Under chapter 11, a debtor can reorganize or wind-down its business for the benefit of itself  
 15 and holders of claims against and interests in the debtor. Chapter 11 also is designed to  
 16 promote equality of treatment for similarly situated holders of claims against the debtor and  
 similarly situated holders of interests in the debtor with respect to the distribution of the  
 debtor's assets.

17 The commencement of a chapter 11 case creates an estate that is comprised of all of the legal  
 18 and equitable interests of the debtor as of the filing date. The Bankruptcy Code provides that  
 19 the debtor may continue to operate its business and remain in possession of its property as a  
 "debtor in possession."

20 The consummation of a chapter 11 plan is the principal objective of a chapter 11 case.  
 21 A chapter 11 plan sets forth the means for satisfying claims against, and interests in, a debtor.  
 22 Confirmation of a chapter 11 plan by a bankruptcy court makes the plan binding upon the  
 23 debtor, any person or entity acquiring property under the plan and any holder of claims  
 24 against or interests in the debtor, whether or not such holder of claims or interests (1) is  
 25 impaired under or has accepted the plan or (2) receives or retains any property under the plan.  
 Subject to certain limited exceptions and other than as provided in the plan itself or the  
 confirmation order, a confirmation order discharges the debtor from any debt that arose prior  
 to the date of confirmation of the plan and substitutes therewith the obligations specified  
 under the confirmed plan.

2. **Why is the First Lien Steering Committee sending me this Disclosure Statement?**

The Disclosure Statement is being furnished by the First Lien Steering Committee in connection with: (a) the solicitation of votes for the acceptance or rejection of the Plan; and (b) the confirmation hearing (the "Confirmation Hearing"), which is scheduled for January 14, 2010 at 9:00 a.m. Pacific Time (the "Confirmation Hearing Date").

Before soliciting votes for the acceptance or rejection of the Plan, Bankruptcy Code section 1125 requires the First Lien Steering Committee to prepare a Disclosure Statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the Plan.

3. **Am I entitled to vote on the Plan? What will I receive from the Debtors if the Plan is consummated?**

Your ability to vote and your distribution under the Plan, if any, depend on what kind of Claim or Interest you hold. A summary of the Classes of Claims and Interests (each, a category of Holders of Claims or Interests as set forth in Article IV of this Disclosure Statement and Article III of the Plan pursuant to section 1122(a) of the Bankruptcy Code, which we refer to as a "Class") and their respective voting statuses is set forth below.

You should refer to this entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Allowed Claims and Interests in each of the Classes below.

Class	Claim	Status	Voting Rights
A-1	First Lien Lender Secured Claims	Impaired	Entitled to Vote
A-2	Second Lien Lender Secured Claims	Impaired	Entitled to Vote
A-3	Other Secured Claims	Unimpaired	Deemed to Accept
B	Priority Non-Tax Claims	Unimpaired	Deemed to Accept
C-1	General Unsecured Claims	Impaired	Entitled to Vote
C-2	First Lien Lender Deficiency Claims	Impaired	Entitled to Vote
C-3	Second Lien Lender Deficiency Claims	Impaired	Entitled to Vote
C-4	Subordinated Claims	Impaired	Deemed to Reject
D	Old Equity Interests	Impaired	Deemed to Reject
E	Intercompany Claims	Impaired	Deemed to Reject

For more information about the treatment of Claims and Interests see "Classification and Treatment of Claims," which begins on page 31 of this Disclosure Statement.

4. **What happens to my recovery if the Plan is not confirmed, or does not go effective?**

In the event that the Plan is not confirmed, there is no assurance that the Debtors will be able to reorganize their business. If the Plan is not confirmed in a timely manner, it is unclear whether the transactions contemplated by the Plan and the Mediation Settlement could be implemented and what Holders of Claims would ultimately receive in respect of their

Claims. It is possible that any alternative plan would result in substantially less favorable treatment for Holders of Claims than such Holders would receive under the Plan. Moreover, non-Confirmation of the Plan may result in an extended chapter 11 proceeding. For a more detailed description of the consequences of the Plan or of a liquidation scenario, see "Best Interests of Creditors Test," which begins on page 82 of this Disclosure Statement, and the Going Concern Analysis and Liquidation Analysis attached as Exhibits D and Exhibit E to this Disclosure Statement.

**5. If the Plan provides that I get a distribution, do I get it upon Confirmation or when the Plan goes effective, and what do you mean when you refer to "Confirmation," "Effective Date" and "Consummation?"**

"Confirmation" of the Plan refers to approval of the Plan by the Bankruptcy Court. "Confirmation" of the Plan does not guarantee that you will receive the distribution indicated under the Plan. After Confirmation of the Plan by the Bankruptcy Court, there are conditions that need to be satisfied or waived so that the Plan can be consummated and go effective. References to the "Effective Date" mean the date that all conditions to the Plan have been satisfied or waived and the Plan has been fully consummated. Distributions will only be made on the Effective Date or as soon as practicable thereafter. See "Conditions Precedent to Confirmation and Consummation of the Plan," which begins on page 75 of this Disclosure Statement, for a discussion of the conditions to Confirmation and the Effective Date.

**6. Where is the cash required to fund the Plan coming from?**

Although the Plan provides for the option of obtaining exit financing, the Plan contemplates that the Reorganized Debtors will fund distributions under the Plan with Cash on hand, existing assets, and the issuance of the New First Lien Notes and Newco Equity Interests. In addition, the Plan provides that the Rhodes Entities will pay \$3.5 million in Cash to the Reorganized Debtors, which will be used to fund distributions under the Plan and provide working capital to the extent of any excess. Finally, the Reorganized Debtors will provide funding for the Litigation Trust in the initial amount of \$100,000 (the "Litigation Trust Funding Amount"). The Litigation Trust Funding Amount will be repaid to the Reorganized Debtors from the first proceeds received by the Litigation Trust.

**7. Is there potential litigation related to the Plan?**

Yes. In the event that any Impaired Class of Claims does not accept the Plan, the First Lien Steering Committee may seek Confirmation of the Plan notwithstanding the dissent of such Class of Claims. The Bankruptcy Court may confirm the Plan pursuant to the "cramdown" provisions of the Bankruptcy Code, which allow the Bankruptcy Court to confirm a plan that has been rejected by an Impaired Class of Claims if it determines that the Plan satisfies the requirements of Bankruptcy Code section 1129(b). There can be no assurance, however, that the Bankruptcy Court will order that the Plan be confirmed over the objection of an Impaired Class of Claims. In addition, the First Lien Steering Committee is aware of the possibility that Stanley Consultants, Inc. may object to the Plan based upon arguments previously raised in connection with Stanley Consultants, Inc.'s objection to the

1 Disclosure Statement. See "Certain Bankruptcy Considerations," which begins on page 87 of  
2 this Disclosure Statement.

3 **8. What are the Claims and Causes of Action that will be transferred to the**  
4 **Litigation Trust?**

5 Pursuant to the terms of the Litigation Trust Agreement, the Debtors will transfer to  
6 the Litigation Trust all Claims and Causes of Action on which the First Lien Lenders do not  
7 have a lien and that have not been released pursuant to the Plan or by order of the Bankruptcy  
8 Court. Such Claims and Causes of Action include those Claims and Causes of Action  
9 belonging to the Debtors against the Rhodes Entities (other than any claims released against  
10 the Rhodes Entities pursuant to the Plan) and those Claims and Causes of Action listed on  
11 Exhibit G hereto. Although the First Lien Steering Committee is still in the process of  
12 analyzing and reviewing potential Claims and Causes of Action against the Rhodes Entities,  
13 the First Lien Steering Committee believes that such Claims and Causes of Action may  
14 potentially include (i) Claims for breach of fiduciary duty, (ii) Claims for misappropriation of  
15 Debtors' assets for personal use, (iii) Claims for usurping corporate opportunities for the  
16 benefit of competing interests, (iv) Claims for mismanagement of the Debtors' operations, (v)  
17 Claims for fraudulent transfers (to the extent not expressly released by the Plan), and (vi)  
18 Claims for the diversion of corporate resources for the benefit of competing interests. For  
19 additional information regarding the Claims and Causes of Action to be transferred to the  
20 Litigation Trust, please see Exhibit G to this Disclosure Statement. For additional details  
21 regarding Claims and Causes of Action against the Rhodes Entities, see "Potential Claims  
22 Against the Rhodes Entities," which begins on page 4 of this Disclosure Statement.

23 **9. What is the process by which the First Lien Lenders will purchase certain**  
24 **general unsecured claims?**

25 Under the terms of the Plan, the First Lien Lenders will receive \$1.5 million in Cash  
26 from the proceeds of the First Lien Lenders' collateral. The First Lien Lenders have agreed to  
27 use the \$1.5 million Cash payment provided to them under the Plan to purchase the General  
28 Unsecured Claims of Creditors who are listed on the Claims Purchase Schedule attached to  
this Disclosure Statement as Exhibit H to the extent such Claims are outstanding as of the  
Effective Date and subject to certain other limitations and conditions. Pursuant to the Plan,  
the First Lien Lenders will be paid the \$1.5 million in Cash through a series of payments  
made over the course of eighteen months. Payments on account of the purchased Claims will  
be made on the same time frame as the First Lien Lenders receive Cash payments from the  
Reorganized Debtors under the Plan. The First Lien Steering Committee may add Claims to  
the Claim Purchase Schedule at any time so long as the amount to be paid for all Claims listed  
on the Claim Purchase Schedule does not exceed \$1.5 million. No Creditor listed on the  
Claim Purchase Schedule will receive an amount in excess of the full amount of its Claim.  
For additional details regarding the purchase of Claims by the First Lien Lenders, see  
"General Unsecured Claims Purchase," which begins on page 63 of this Disclosure Statement.

10. **Why does the Plan provide for substantive consolidation?**

As discussed in more detail in this Disclosure Statement, the First Lien Steering Committee believes that substantive consolidation of the Debtors' Estates is warranted based on several factors and will provide the greatest recovery for unsecured creditors. Among other things, these factors include that the Debtors (i) operate as a single business enterprise under a single name, (ii) operate on a centralized basis with a centralized cash management system, (iii) share common parent companies, (iv) rely on a single corporate office for operational and other support services, (v) regularly conduct business with each other such that the flow of funds and transactions would be difficult to entangle, and (vi) are all obligated on the First Lien Lender Claims and the Second Lien Lender Claims. Moreover, as the First Lien Lenders and Second Lien Lenders can assert the full amount of their claims at every Debtor and general unsecured creditors can only assert claims against the specific Debtor against which such creditor has a claim, substantive consolidation will result in greater potential recoveries to unsecured creditors. In addition, a large amount of intercompany claims were owed between the various Debtors as of the Petition Date, and numerous Proofs of Claim were Filed against the incorrect Debtor entity. For additional information regarding the substantive consolidation of the Debtors' Estates, see "Substantive Consolidation," which begins on page 35 of this Disclosure Statement.

11. **What are the contents of the solicitation packages to be sent to creditors who are eligible to vote on the Plan?**

All Creditors who are eligible to vote on the Plan will receive a solicitation package containing (a) a cover letter: (i) describing the contents of the Solicitation Package and instructions on how paper copies of any materials that may be provided in CD-ROM format can be obtained at no charge; and (ii) urging the Holders in each of the Voting Classes (as defined below) to vote to accept the Plan, (b) the Solicitation Procedures Order, (c) a copy of the solicitation procedures, (d) an appropriate form of Ballot, (e) a copy of a letter signed by the Mediation Parties in support of the Plan, (f) a copy of a letter signed by the Creditors' Committee in support of the Plan, (g) this Disclosure Statement (together with the Plan, which is Exhibit A thereto) in either paper or CD-ROM format; and (h) such other materials as the Bankruptcy Court may direct.

The notices sent to parties in interest will indicate that this Disclosure Statement, the Plan and all of the exhibits thereto are available for viewing by any party at: [www.omnimgt.com/rhodes](http://www.omnimgt.com/rhodes).

12. **Will there be releases granted to parties in interest under the plan?**

Yes. The Plan provides for the Debtors' estates to grant releases to (a) the First Lien Lenders in their capacity as such, (b) the First Lien Steering Committee, (c) the Second Lien Lenders in their capacity as such, (d) with respect to each of the foregoing Entities in clauses (a) through (c), such Entities' predecessors, successors and assigns, (e) the Creditors' Committee and the members thereof in their capacity as such, (f) with respect to each of the foregoing Entities in clauses (a) through (e), such Entities' subsidiaries, affiliates, officers, members, directors, principals, employees, agents, financial advisors, attorneys, accountants,

investment bankers, consultants, representatives, and other Professionals, (g) the Debtors' officers, employees (including Thomas Robinson and Joseph Schramm) and Professionals, as of the Petition Date, and (h) Paul Huygens; provided, however, that clause (g) shall not include (i) the Rhodes Entities or their affiliates, (ii) insiders of any of the Rhodes Entities (except as to Thomas Robinson and Joseph Schramm), or (iii) relatives of Rhodes.

In addition, the Plan provides that the Rhodes Entities shall be deemed released from any and all Claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever arising under chapter 5 of the Bankruptcy Code with respect to transfers made by the Debtors to the Rhodes Entities during the 2 years prior to the Petition Date; provided, however, that such release shall only apply to transfers expressly set forth in the Schedules as Filed with the Bankruptcy Court as of August 1, 2009 or as disclosed in Attachment B to the Mediation Term Sheet.

Finally, the Plan provides that, pursuant to Bankruptcy Rule 9019, and except as otherwise specifically provided in the Plan, to the extent a First Lien Lender elects on its Ballot to release the First Lien Lenders in accordance with this Section VIII.F. of the Plan, each of the First Lien Lenders electing to grant such a release, shall be deemed to release each of the other First Lien Lenders that has elected to grant such a release; provided, however, that Claims or liabilities arising out of or relating to any act or omission of any First Lien Lender or any of its affiliates that constitutes gross negligence or willful misconduct shall not be released.

**13. What is the deadline to vote on the Plan?**

**4:00 p.m.** (prevailing Pacific Time) on **January 4, 2010.**

**14. How do I vote for or against the Plan?**

This Disclosure Statement, accompanied by a Ballot or Ballots to be used for voting on the Plan, is being distributed to the Holders of Claims entitled to vote on the Plan. If you are a Holder of a Claim in the following Classes, you may vote for or against the Plan by completing the Ballot and returning in the manner provided on the Ballot:

- **Class A-1 (First Lien Lender Secured Claims)**
- **Class A-2 (Second Lien Lender Secured Claims)**
- **Class C-1 (General Unsecured Claims)**
- **Class C-2 (First Lien Lender Deficiency Claims)**
- **Class C-3 (Second Lien Lender Deficiency Claims)**

The Debtors, with the approval of the Bankruptcy Court, have engaged Omni Management Group, LLC, Attn: Brian Osborne, 16161 Ventura Blvd. Suite C, PMB 477, Encino, CA 91436, to serve as the Claims and Solicitation Agent. The Claims and

Solicitation Agent will process and tabulate Ballots for each Class entitled to vote to accept or reject the Plan.

The deadline to vote on the Plan is **4:00 p.m.**, (prevailing Pacific Time), on **January 4, 2010**.

### BALLOTS

Ballots must be actually received by the Claims and Solicitation Agent by **4:00 p.m.** (prevailing Pacific Time) on **January 4, 2010**. Ballots can be sent by hand delivery, mail, fax or email to the following addresses:

Hand Delivery/Mail:

The Rhodes Companies, LLC  
Omni Management Group  
Attn: Brian Osborne  
16161 Ventura Blvd.  
Suite C, PMB 477  
Encino, CA 91436

Fax:

(818) 783-2737

Email:

Nova@omningmt.com

If you have any questions on the procedure for voting on the Plan, please contact the Claims and Solicitation Agent by telephone at (866) 989-6144 or contact Brian Osborne at bosborne@omningmt.com.

More detailed instructions regarding how to vote on the Plan are contained on the Ballots distributed to Holders of Claims that are entitled to vote on the Plan. For your vote to be counted, your ballot must be completed, signed and received by **4:00 p.m.** (prevailing Pacific Time), on **January 4, 2010**.

It is important to follow the specific instructions provided on each Ballot. Each Ballot must be completed and returned in the manner indicated on the Ballot.

#### 15. Why is the Bankruptcy Court holding a Confirmation Hearing?

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on Confirmation of the Plan. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to Confirmation of the Plan.

1           **16. When is the Confirmation Hearing set to occur?**

2           The Bankruptcy Court has scheduled the Confirmation Hearing for **January 14, 2010**  
3 to take place at **9:00 a.m.** (prevailing Pacific Time) before the Honorable Linda B. Riegle,  
4 United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of  
5 Nevada, located at 300 Las Vegas Boulevard South, Las Vegas, Nevada 89101. The  
6 Confirmation Hearing may be continued from time to time by announcing such continuance in  
7 open court or otherwise, without further notice to parties in interest. The Bankruptcy Court, in  
8 its discretion and prior to the Confirmation Hearing, may put in place additional procedures  
9 governing the Confirmation Hearing. The Plan may be modified, if necessary, prior to,  
10 during, or as a result of the Confirmation Hearing, without further notice to interested parties.

11           Objections to Confirmation of the Plan must be filed and served on the First Lien  
12 Steering Committee, and certain other parties, by no later than **January 4, 2010 at 4:00 p.m.**  
13 (prevailing Pacific Time). Any objections to the Plan must be (i) in writing, (ii) conform to  
14 the Bankruptcy Rules and the Local Rules, (iii) state the name and address of the objecting  
15 party and the amount and nature of the Claim of such Entity, (iv) state with particularity the  
16 basis and nature of any objection to the Plan and, if practicable, a proposed modification to  
17 the Plan that would resolve such objection, (v) and be actually received by no later than  
18 **January 4, 2010 at 4:00 P.M.**

19           **17. What is the purpose of the Confirmation Hearing?**

20           The consummation of a chapter 11 plan is the principal objective of a chapter 11 case.  
21 A chapter 11 plan sets forth the means for satisfying claims against, and interests in, a debtor.  
22 Confirmation of a chapter 11 plan by a bankruptcy court makes the plan binding upon the  
23 debtor, any person or entity acquiring property under the plan and any holder of claims against  
24 or interests in the debtor, whether or not such holder of claims or interests (1) is impaired  
25 under or has accepted the plan or (2) receives or retains any property under the plan. Subject  
26 to certain limited exceptions and other than as provided in the plan itself or the confirmation  
27 order, a confirmation order discharges the debtor from any debt that arose prior to the date of  
28 confirmation of the plan and substitutes therewith the obligations specified under the  
confirmed plan.

1           **18. What role does the Bankruptcy Court play after the Confirmation Hearing?**

2           After the Confirmation of the Plan and the occurrence of the Effective Date, the  
3 Bankruptcy Court will retain exclusive jurisdiction over all matters arising out of, or related  
4 to, the Chapter 11 Cases and the Plan pursuant to sections 105(a) and 1142 of the Bankruptcy  
5 Code and as otherwise set forth in the Plan.

6           **19. What is the effect of the Plan on the Debtors' ongoing business?**

7           The Debtors are reorganizing pursuant to chapter 11 of the Bankruptcy Code. As a  
8 result, the Confirmation of the Plan means that the Debtors will not be liquidated or forced to  
9 go out of business. As a result of the Mediation Settlement, the Plan contemplates that, upon  
10 the Debtors' emergence from chapter 11, the Debtors will continue to operate as a going

1 concern homebuilder primarily in the Las Vegas market. For additional details on the Plan,  
 2 see "Plan Overview" beginning on page 1 of this Disclosure Statement. Additional details  
 3 regarding the Mediation Settlement can be found in the section entitled "Settlement  
 Overview" beginning on page 2 of this Disclosure Statement.

4 **20. Will any party have significant influence over the corporate governance**  
 5 **and operations of the Reorganized Debtors?**

6 The Plan contemplates that the First Lien Lenders will be the owners of the  
 7 Reorganized Debtors. Pursuant to the Plan, a new parent company for the Debtors will be  
 8 formed ("Newco") and each of the First Lien Lenders will receive their pro rata share of 100%  
 9 of the equity interests in Newco on account of its First Lien Lender Secured Claim. As a  
 10 result of certain transactions to be undertaken in connection with the Plan, Newco will control  
 11 the Reorganized Debtors upon their emergence from bankruptcy. The boards of directors of  
 12 the Reorganized Debtors will consist of one or more members appointed by the First Lien  
 Steering Committee. The First Lien Steering Committee will also appoint a chief executive  
 officer or other similar officer to manage the Reorganized Debtors. The First Lien Steering  
 Committee is in the process of selecting such officers and directors. The identity of such  
 officers and directors will be publicly disclosed prior to the Confirmation Hearing, which is  
 scheduled to take place on January 14, 2010 at 9:00 a.m.

13 **21. Does the First Lien Steering Committee recommend voting in favor of the**  
 14 **Plan?**

15 Yes. In the opinion of the First Lien Steering Committee, the Plan is preferable to the  
 16 alternatives described in this Disclosure Statement because it provides for a larger distribution  
 17 to the Holders of Claims than would otherwise result in a liquidation under chapter 7 of the  
 18 Bankruptcy Code. In addition, any alternative other than Confirmation could result in  
 19 extensive delays and increased Administrative Claims, which would result in smaller  
 distributions to the Holders of Claims. Accordingly, the First Lien Steering Committee  
 recommends that Holders of Claims entitled to vote on the Plan support Confirmation and  
 vote to accept the Plan.

20 H. Voting and Confirmation

21 The Classes entitled to vote will have accepted the Plan if (1) the Holders of at least  
 22 two thirds in dollar amount of the Allowed Claims actually voting in each such Class, as  
 23 applicable, have voted to accept the Plan and (2) the Holders of more than one half in number  
 24 of the Allowed Claims actually voting in each such Class, as applicable, have voted to accept  
 the Plan. Assuming the requisite acceptances are obtained, the First Lien Steering Committee  
 intends to seek Confirmation of the Plan at the Confirmation Hearing scheduled to commence  
 on January 14, 2010 at 9:00 a.m. prevailing Pacific Time, before the Bankruptcy Court.  
 Section 1129(a)(10) of the Bankruptcy Code will be satisfied for purposes of Confirmation by  
 acceptance of the Plan by at least one Class of Claims that is Impaired under the Plan.

27 Subject to entry of the Confirmation Order, to the extent a Holder of one or more First  
 28 Lien Lender Claims also holds one or more Second Lien Lender Claims, if such Holder votes

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1 in favor of the Plan on account of its First Lien Lender Claim(s), the Holder shall be deemed  
2 to vote in favor of the Plan on account of its Second Lien Lender Claim(s) regardless of  
3 whether the Holder actually votes its Second Lien Lender Claim(s) in favor of the Plan.

4 THE FIRST LIEN STEERING COMMITTEE WILL SEEK CONFIRMATION OF  
5 THE PLAN UNDER SECTION 1129(B) OF THE BANKRUPTCY CODE WITH RESPECT  
6 TO ANY IMPAIRED CLASSES PRESUMED TO REJECT THE PLAN, AND THE FIRST  
7 LIEN STEERING COMMITTEE RESERVES THE RIGHT TO DO SO WITH RESPECT TO  
8 ANY OTHER REJECTING CLASS OR TO MODIFY THE PLAN.

9 The Bankruptcy Court has established November 24, 2009 (the "Record Date"), as the  
10 date for determining which Holders of Claims are eligible to vote on the Plan. Ballots, along  
11 with this Disclosure Statement, the Plan and the Solicitation Procedures Order, will be mailed  
12 to all registered Holders of Claims as of the Record Date that are entitled to vote. A return  
13 envelope will be included with Ballots, as appropriate.

14 The Claims and Solicitation Agent will answer questions regarding the procedures and  
15 requirements for voting to accept or reject the Plan and for objecting to the Plan, provide  
16 additional copies of all materials and oversee the voting tabulation. The Claims and  
17 Solicitation Agent will also process and tabulate Ballots for each Class entitled to vote to  
18 accept or reject the Plan. The address for the Claims and Solicitation Agent is:

Omni Management Group  
Attn: Rhodes Homes Claims Agent  
16501 Ventura Boulevard, Suite 440  
Encino, CA 91436

19 Or if by email to [scott@omnimgt.com](mailto:scott@omnimgt.com) or by fax to 818-783-2737. If you have any  
20 questions on voting procedures, please call the Claims and Solicitation Agent at the following  
21 toll free number: (818) 906-8300.

22 TO BE COUNTED, BALLOTS (OR MASTER BALLOTS OF THE RESPECTIVE  
23 NOMINEE HOLDER, IF APPLICABLE) INDICATING ACCEPTANCE OR REJECTION  
24 OF THE PLAN MUST BE RECEIVED BY THE CLAIMS AND SOLICITATION AGENT  
25 NO LATER THAN 4:00 P.M. PREVAILING PACIFIC TIME ON JANUARY 4, 2010 (THE  
26 "VOTING DEADLINE"). ANY BALLOT RECEIVED AFTER THE VOTING DEADLINE  
27 SHALL NOT BE COUNTED.

28 THE FIRST LIEN STEERING COMMITTEE BELIEVES THAT THE PLAN IS IN  
THE BEST INTEREST OF ALL CREDITORS. THE FIRST LIEN STEERING  
COMMITTEE RECOMMENDS THAT ALL HOLDERS OF CLAIMS AGAINST THE  
DEBTORS WHOSE VOTES ARE BEING SOLICITED SUBMIT BALLOTS TO ACCEPT  
THE PLAN.

I. Consummation of the Plan

It will be a condition to Confirmation of the Plan that all provisions, terms, and  
conditions of the Plan are approved in the Confirmation Order unless otherwise satisfied or

waived pursuant to the provisions of Article X of the Plan. Following Confirmation, the Plan will be consummated on the Effective Date, which will be no earlier than the eleventh day following entry of an order, in form and substance acceptable to the First Lien Steering Committee, by the Bankruptcy Court confirming the Plan and satisfaction of all conditions to Confirmation and the Effective Date having been satisfied or waived in accordance with the terms of the Plan.

## Article II. BACKGROUND<sup>2</sup>

### A. Description of the Debtors' Business Operations

#### 1. Organizational Structure

The Debtors' organizational chart is attached hereto as Exhibit B. In addition to the Debtor entities below, the Debtors are affiliated with several other companies that are not Debtors in these Chapter 11 Cases.

Rhodes Ranch GP is the primary holder of land associated with the Rhodes Ranch master-planned community and also owns some commercial properties outside of the Rhodes Ranch master-planned community. The Rhodes Ranch master-planned community consists of several developments, including developments built by non-Debtor affiliated developers. Rhodes Design and Development Corp. holds the Debtors' contractor's license in Nevada along with holding some land. Previously, Rhodes Ranch Golf and Country Club was the owner and operator of the golf course and club house in the Rhodes Ranch development, but on December 22, 2008, as required by the First Lien Credit Agreement, its assets were sold to non-Debtor Rhodes Ranch Golf, Inc.

The Rhodes Companies, LLC is a real estate development holding company.

The following Debtors hold parcels of land associated with the Tuscany development: Rhodes Design and Development; Tuscany Acquisitions, LLC; Tuscany Acquisitions II, LLC; Tuscany Acquisitions III, LLC; and Tuscany Acquisitions IV, LLC. Tuscany Golf Country Club, LLC owns and operates the golf club located at the Tuscany development.

The following Debtors own land in Arizona: Rhodes Homes Arizona, LLC; Rhodes Arizona Properties, LLC; and Elkhorn Investments, Inc.. Rhodes Homes Arizona, LLC also holds the Debtors' Arizona contractor's license.

Heritage Land Company, LLC is the land management company for its subsidiaries and does not hold any real estate directly. The following Debtors are subsidiaries of Heritage Land Company, LLC and hold various parcels of land primarily located in Nevada: Tick, LP; Glynda, LP; Chalkline, LP; Batcave, LP; Jacknife, LP; Wallboard, LP; and Overflow LP.

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<sup>2</sup> Article II is based primarily on representations made by the Debtors.

1 The Debtors are also involved in land acquisition, development, and some utility and  
 2 design work. Exterior and interior design is provided by Rhodes Design & Development  
 3 Corporation. Rhodes Realty, Inc. is the Debtor that provides sales and marketing services for  
 4 the Debtors. C & J Holdings, Inc. is the homeowners association management company for  
 5 Rhodes Ranch, Tuscany, and three other smaller communities.

6 Pinnacle Grading, LLC provides grading and excavation services to the Debtors.  
 7 Previously, the following Debtors also provided specific services to the Debtors, but have  
 8 ceased operations: Bravo Inc.; Gung-Ho Concrete, LLC; Geronimo Plumbing, LLC;  
 9 Arapahoe Cleaning, LLC; Apache Framing, LLC; Six Feathers Holding, LLC; and Tribes  
 10 Holding LLC.

11 Elkhorn Investments, Inc. is a holding company for Elkhorn Partners, LP. Elkhorn  
 12 Partners, LP is a limited partnership that was formed for the construction and sale of several  
 13 communities in Northwest Las Vegas. As of the Petition Date, only one home remained  
 14 unsold.

## 15 2. History and Projects

16 The Debtors are engaged primarily in the business of detached home building and  
 17 sales in Nevada and Arizona. Collectively, the Debtors developed 40 communities since their  
 18 founding in 1988, generating over \$2.4 billion in total revenues. The Debtors have built more  
 19 than 6,000 homes in the Las Vegas Valley during the past two decades. In 2008, the Debtors  
 20 sold 390 homes, generating revenue of \$118.3 million, or \$54.6 million in gross profit.

21 Currently, the Debtors have two signature master planned communities under  
 22 development, Rhodes Ranch and Tuscany Residential Village. Both communities are  
 23 recognized for their accessible location to employment centers and the Las Vegas Strip, for  
 24 their community amenities, country club lifestyle, and for the quality and value of home  
 25 design and construction.

26 Rhodes Ranch is located in southwestern Las Vegas and opened in 1997. It has a  
 27 gated entry and 24-hour security detail with patrols. The development is built around a Ted  
 28 Robinson-designed 18-hole championship golf course. The development features a multi-  
 million dollar community center with swimming pool, gymnasium, multiple basketball courts,  
 fitness center, and card/club rooms. The community also has a community park and sports  
 complex. There are 314 available finished lots remaining to be sold as of March 31, 2009,  
 and approximately 1,993 lots to be developed. The First Lien Steering Committee estimates  
 the value of the Rhodes Ranch development on a going concern basis to be approximately  
 \$65.4 million.

Tuscany Residential Village is located in southeast Las Vegas and opened in 2005.  
 The development is also built around a Ted-Robinson designed 18-hole championship golf  
 course. It has gated entry and 24-hour security detail (with patrols), an existing 35,000 square  
 foot community center similar to Rhodes Ranch, and a planned Tuscan-themed retail center.  
 As of March 31, 2009, Tuscany had 350 finished lots remaining to be sold and 559 partially

1 developed lots. The First Lien Steering Committee estimates the value of Tuscan Residential  
2 Village on a going concern basis to be approximately \$48.1 million.

3 Spanish Hills is a high-end development located in southwest Las Vegas. The  
4 community is built on over 100 acres and features many custom homes in excess of 5,400  
5 square feet of living space. As of March 31, 2009, it had 2 partially developed single family  
6 estate lots and 2 finished lots remaining to be sold. It also had 10 acres of undeveloped land.  
The First Lien Steering Committee estimates value of the Spanish Hills development on a  
going concern basis to be approximately \$1 million.

7 The Debtors did not operate their developments by legal entity, so for purposes of  
8 estimating Claims against each of these developments, the Debtors would need to conduct a  
9 Claim-by-Claim analysis. In several cases, the Claims filed by Creditors were asserted  
10 against The Rhodes Companies, LLC, which is the lead Debtor for purposes of the Chapter 11  
11 Cases, but not necessarily the contracting party with whom the such Creditors may have  
conducted business. There is, however, approximately \$390 million of Secured First Lien  
Lender debt and Second Lien Lender debt filed against each Debtor. For a more complete  
discussion of the total Claims asserted against all the Debtors, see Article I.F hereof.

12 The Debtors' homebuilding operations in Arizona ("Arizona") will be transferred to  
13 the Rhodes Entities on the Effective Date pursuant to the Plan. Arizona consists of all of the  
14 real and personal property of three of the Debtors: Rhodes Homes Arizona Properties, LLC,  
15 Rhodes Homes Arizona, LLC, and Elkhorn Investments, Inc. Included within the Arizona  
16 Assets is Pravada, which is a Rhodes Homes development located in Mohave County (vicinity  
17 of Kingman, Arizona) on approximately 1,312 acres, which has 3,591 partially developed lots.  
18 Also included in Arizona, which is located within and around Pravada, are 4 model homes, 4  
19 standing inventory homes, and 327 acres of land. A list of Arizona Assets being transferred to  
20 the Rhodes Entities is set forth on Attachment D to the Mediation Term Sheet. The Arizona  
Assets do not include any assets owned by Pinnacle Grading located in Arizona, except for  
Pinnacle Grading office equipment, furniture, computers located in Arizona, which is set forth  
on Attachment D to the Mediation Term Sheet. The Arizona Assets being transferred also do  
not include intercompany claims, the Stanley Engineering Litigation or any cash owned by  
any of the foregoing legal entities.

21 The Debtors own a number of additional lots and commercial-zoned properties in  
22 various stages of development in Nevada and Arizona. As of the first quarter of 2009,  
23 development on all projects except Rhodes Ranch and Tuscan has ceased pending  
improvement in the real estate market.

### 24 3. Principal Debt and Capital Structure

25 The Debtors are party to a Credit Agreement dated as of November 21, 2005 among  
26 Heritage Land Company, LLC, The Rhodes Companies, LLC, and Rhodes Ranch General  
27 Partnership, as the Borrowers, the Lenders Listed Therein as the Lenders, and Credit Suisse,  
28 Cayman Islands Branch, as Administrative Agent, Collateral Agent, Syndication Agent, Sole  
Bookrunner and Sole Lead Arranger (the "First Lien Credit Agreement"). As of the Petition  
Date, there was approximately \$302 million in principal amount outstanding under the First

Lien Credit Agreement. The First Lien Steering Committee is comprised of certain lenders under the First Lien Credit Agreement that hold, in the aggregate, approximately 70% of the outstanding first lien debt.<sup>3</sup> Three of the Debtors are primary obligors under the First Lien Credit Agreement. The remaining Debtors executed guarantees under the same facility. The First Lien Credit Agreement is secured by a blanket first lien on substantially all of the Debtors' property. The First Lien Lenders assert that the Stanley Engineering Litigation is among the assets included in their collateral package.

In addition, the Debtors are party to a Credit Agreement dated as of November 21, 2005 among Heritage Land Company, LLC, The Rhodes Companies, LLC, and Rhodes Ranch General Partnership, as the Borrowers, the Lenders Listed Therein, as the Lenders, and Credit Suisse, Cayman Islands Branch, as Administrative Agent, Collateral Agent, Syndication Agent, Sole Bookrunner and Sole Lead Arranger (the "Second Lien Credit Agreement"). As of the Petition Date, there was approximately \$70.7 million in principal amount outstanding under the Second Lien Credit Agreement. The Second Lien Credit Agreement is secured by a blanket second lien on substantially all of the Debtors' property. The Second Lien Lenders also assert that the Stanley Engineering Litigation is among the assets included in their collateral package.

The First Lien Lenders and the Second Lien Lenders are party to an intercreditor agreement that, among other things, prohibits the Second Lien Lenders from receiving a recovery from the collateral securing the first lien and second lien debt unless the First Lien Lenders are repaid in full. Moreover, to the extent the Second Lien Agent receives Collateral or the proceeds thereof prior to the discharge of the first lien indebtedness, the Second Lien Agent must pay over such Collateral or proceeds to the First Lien Agent for the benefit of First Lien Lenders. Absent the consent of the First Lien Lenders, the Second Lien Lenders would not be entitled to a recovery in these cases. The intercreditor agreement does not, however, prevent the Second Lien Lenders from voting against the Plan. Notwithstanding the foregoing provisions, the First Lien Lenders have agreed to gift a 50% interest in the Stanley Engineering Litigation to the Second Lien Lenders on account of the Second Lien Lenders' Secured Claims if the Class of Second Lien Lender Secured Claims votes in favor of the Plan.

Proceeds from the first lien indebtedness and the second lien indebtedness were used as follows: (i) approximately \$240 million was used to pay off other secured loan debt of the Debtors; (ii) approximately \$50 million was placed in an interest reserve for both the first lien credit facility and the second lien credit facility; (iii) approximately \$70 million was paid to equity, and (iv) the remainder was used by the Debtors to fund operating expenses. The interest reserve was applied during the first 18 months of the credit agreement, or by the end of 2006, pursuant to the terms of the credit agreement. Accordingly, there are no funds remaining in the aforementioned interest reserve.

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<sup>3</sup> The members of the First Lien Steering Committee are Credit Suisse Asset Management, Candlewood Special Situations Master Fund, Credit Suisse Loan Funding LLC, CypressTree Investment Management LLP, General Electric Capital Corporation, Highland Capital Management, L.P., and Sorin Capital Management.

1 The Debtors are also party to a swap transaction, pursuant to which there was  
 2 approximately \$20.2 million outstanding on the Petition Date. The swap is an interest rate  
 3 hedging arrangement with an affiliate of the First Lien Agent to hedge against the floating  
 4 interest rate applicable to amounts outstanding under the First Lien Credit Agreement. The  
 5 swap involves the payment by the Debtors of fixed amounts to the affiliate of the First Lien  
 6 Agent, and the payment of variable amounts (based on agreed upon floating interest rates) by  
 7 the affiliate to the Debtors. Obligations outstanding under the swap transaction are equal in  
 8 priority with obligations outstanding under the First Lien Credit Agreement.

9 The Debtors are also obligated to approximately nine equipment lenders who hold  
 10 purchase money security interests in various office equipment and equipment used in the  
 11 Debtors' operations. As of the Petition Date, the Debtors estimate that they are obligated to  
 12 these equipment lenders in the approximate amount of \$2.5 million.

13 In the ordinary course of business, the Debtors are required to post bonds, either on an  
 14 unsecured or partially secured basis backed by collateral, as support for the Debtors'  
 15 completion of certain performance and/or payment obligations for the benefit of various third  
 16 party beneficiaries, generally governmental entities, agencies, jurisdictions or homeowners  
 17 associations with which they conduct business. The Debtors rely on bonding companies to  
 18 post the bonds and have issued indemnities in favor of the bonding companies in the event  
 19 that the bonds come due. The Debtors estimate that they currently have approximately \$31  
 20 million in outstanding bonds, none of which amounts have been called. The First Lien  
 21 Steering Committee anticipates the existing performance bonds will continue in effect upon  
 22 the Debtors' emergence from chapter 11.

#### 23 4. The Rhodes Entities Claims

24 The Debtors are affiliated with several non-Debtor entities that are not obligors or  
 25 guarantors under the First Lien Credit Agreement or the Second Lien Credit Agreement. The  
 26 non-Debtor entity affiliates, (the Rhodes Entities) are directly or indirectly owned by James  
 27 M. Rhodes, the founder and President of the Debtors. The Rhodes Entities have alleged pre-  
 28 petition Claims on an aggregate basis against the Debtors for approximately \$10.598 million  
 consisting primarily of tax payments allegedly made by the Rhodes Entities on behalf of the  
 Debtors. The First Lien Steering Committee is in the process of analyzing the Rhodes Entities  
 Claims and any and all claims that the Debtors' estates may hold against the Rhodes Entities.

#### 5. Management of the Debtors

James Rhodes leads the management team of the Debtors. Upon the Effective Date, it  
 is contemplated that James Rhodes will not have a management role with the Reorganized  
 Debtors.

#### B. Pending Significant Litigation

Rhodes Homes Arizona, LLC filed suit against Stanley Consultants, Inc. ("Stanley"),  
 an Iowa corporation, in August, 2006 in the Superior Court of Arizona, Maricopa County. An  
 amended complaint was filed on October, 23 2007. The amended complaint seeks recovery  
 against Stanley for breach of contract, bad faith, declaratory relief, fraud, punitive damages,

1 and professional negligence arising out of approximately \$7 million worth of charges for work  
 2 that was substantially unusable. Damages have been itemized to counsel for Stanley in the  
 3 amount of \$25,140,595.96, which amount does not include exemplary damages. Stanley has  
 4 filed a counterclaim to recover approximately \$2 million in unpaid charges. A significant  
 5 portion of discovery has been completed in connection with the lawsuit. Upon information  
 6 and belief, no trial date has been set and the First Lien Steering Committee and Debtors do not  
 7 know when a trial will be held or a judgment may entered in connection therewith. As a  
 8 result, it is uncertain if there will be any proceeds from the Stanley Engineering Litigation  
 9 and, if there are, when the net proceeds may be distributed in accordance with the terms of the  
 10 Plan.

11 Stanley Filed Proofs of Claim against Rhodes Homes Arizona, LLC, Rhodes Design  
 12 and Development Corporation and Rhodes Ranch General Partnership asserting Claims in the  
 13 total aggregate amount of \$4,609,249.00 on account of prepetition services allegedly rendered  
 14 pursuant to agreements entered into with (i) Rhodes Homes Arizona, LLC and (ii) Rhodes  
 15 Design and Development Corporation and Rhodes Ranch General Partnership. The  
 16 Reorganized Debtors will evaluate and, if appropriate, file objections to such Claims prior to  
 17 the Claims Objection Deadline. The Reorganized Debtors also intend to pursue the Stanley  
 18 Engineering Litigation post-emergence.

19 Stanley disputes the Debtors' ability to transfer any intellectual property created by  
 20 Stanley to the Rhodes Entities.

### 21 Article III.<sup>4</sup> 22 THE CHAPTER 11 CASES

23 The following is a general summary of the Chapter 11 Cases, including the events  
 24 leading up to the chapter 11 filings, the stabilization of the Debtors' operations following the  
 25 chapter 11 filings, certain administrative matters addressed during the Chapter 11 Cases and  
 26 the Debtors' restructuring initiatives since the chapter 11 filings.

#### 27 A. Events Leading to the Chapter 11 Cases

28 At the end of the fourth quarter of 2008, sales in the Las Vegas market of new,  
 detached homes were down 93% (to 522 net sales) from the peak (7,731 quarterly net sales)  
 that occurred in the second quarter of 2005. The median base price for a detached single  
 family home dropped 39% from the peak achieved in the fourth quarter of 2005.

Although the Debtors had made cost reductions in general overhead and other areas,  
 including employee layoffs, many factors, including the severe downturn of the Las Vegas  
 market, significant supply overhang, and general economic malaise combined to create an  
 environment where the Debtors were unable to meet their March 2009 debt and amortization  
 payments. The First Lien Steering Committee was formed in early March 2009 to negotiate  
 the terms of a forbearance agreement and consensual restructuring with the Debtors after it

<sup>4</sup> Article III includes information that is based on representations made by the Debtors.

1 became apparent that the Debtors would not be able to make their regularly scheduled interest  
2 and amortization payments on the first lien debt.

3 On March 31, 2009, an interest payment in the amount of approximately \$9 million  
4 and a principal payment in the amount of \$10.75 million was due and owing on the First Lien  
5 Credit Agreement and an interest payment in the amount of approximately \$2.4 million was  
6 due and owing on the Second Lien Credit Agreement. Despite extended and intensive  
7 negotiations between the First Lien Lenders and the Debtors, when no agreement was reached  
8 by March 31, 2009, the Debtors commenced these Chapter 11 Cases on March 31, 2009 and  
9 April 1, 2009 to avail themselves of the protections of the Bankruptcy Code.

10 B. Initiation of the Chapter 11 Cases

11 On either March 31, 2009 or April 1, 2009, each of the Debtors Filed a voluntary  
12 petition for relief under chapter 11 of the Bankruptcy Code. The Debtors continue to operate  
13 their business and manage their properties as debtors in possession pursuant to sections  
14 1107(a) and 1108 of the Bankruptcy Code. On April 13, 2009, the Bankruptcy Court entered  
15 an order jointly administering the Chapter 11 Cases pursuant to Bankruptcy Rule 1015(b). No  
16 trustee or examiner has been appointed in the Chapter 11 Cases.

17 C. Stabilization of Operations

18 After commencing the Chapter 11 Cases, the Debtors sought and obtained a number of  
19 orders from the Bankruptcy Court to minimize disruption to their operations and facilitate the  
20 administration of the Chapter 11 Cases. Several of these orders are briefly summarized below.

21 1. Cash Collateral Motion

22 The Debtors Filed a motion (the "Cash Collateral Motion") seeking entry of interim  
23 and final orders (i) authorizing the Debtors to use cash collateral, (ii) granting adequate  
24 protection to the Debtors' prepetition secured creditors, and (iii) scheduling a final hearing on  
25 the Cash Collateral Motion [Heritage Docket No. 15]. Subsequent to the filing of the Cash  
26 Collateral Motion, the Court entered a series of stipulated orders authorizing the Debtors to  
27 use cash collateral with the consent of the First Lien Steering Committee. On April 10, 2009,  
28 the Court entered a stipulated interim order (the "First Stipulated Cash Collateral Order")  
authorizing the Debtors to use cash collateral through April 17, 2009 [Heritage Docket No.  
125]. On April 17, 2009, the Court entered a second stipulated interim order (the "Second  
Stipulated Cash Collateral Order"), which extended the Debtors' authorization to use cash  
collateral through April 28, 2009 [Rhodes Docket No. 73] on similar terms to the First  
Stipulated Cash Collateral Order. On April 30, 2009, the Court entered a final stipulated order  
authorizing the Debtors to use cash collateral through June 28, 2009 [Rhodes Docket No.  
126]. In response to further requests for extension of the Debtors' authority to use cash  
collateral, the First Lien Steering Committee has consented to periodic continuances of the  
Debtors' use of cash collateral. A copy of the current cash collateral budget is attached hereto  
as Exhibit C.

1           2.       Cash Management Motion

2           The Debtors Filed a motion (the "Cash Management Motion") seeking entry of interim  
3 and final orders (i) authorizing the Debtors to continue to use their existing, centralized cash  
4 management system, bank accounts and business forms; (ii) granting administrative expense  
5 priority status to intercompany claims arising on and after the Petition Date; (iii) waiving the  
6 investment and deposit requirements under section 345 of the Bankruptcy Code; and (iv)  
7 granting related relief [Rhodes Docket No. 13]. On April 17, 2009, the Bankruptcy Court  
8 granted the Cash Management Motion on an interim basis with certain modifications [Rhodes  
9 Docket No. 78]. On April 30, 2009, the Bankruptcy Court entered a final order granting the  
10 Cash Management Motion on a final basis [Rhodes Docket No. 123].

11           3.       Home Sale Motion

12           The Debtors Filed a motion (the "Home Sale Motion") for authority to, among other  
13 things, (i) continue the construction, sale and closing of homes to customers in the ordinary  
14 course of business, (ii) honor certain prepetition contract obligations to homebuyers,  
15 including, where appropriate in the Debtors' business judgment and not inconsistent with past  
16 business practices, to refund deposits or provide other customer incentives, (iii) provide that  
17 the sale of homes to the Debtors' customers shall be free and clear of all liens, claims,  
18 encumbrances and other interests, (iv) pay claims secured by liens out of the proceeds of  
19 home sales, (v) establish procedures for resolving disputed lien claims, (vi) proceed  
20 immediately with the sale of homes and establishment of the lien procedures, and (vii) permit  
21 financial institutions to receive, process, honor and pay all checks presented for payment and  
22 electronic payment requests relating to the foregoing [Rhodes Docket No. 14]. As set forth in  
23 the Home Sale Motion, the Debtors' ability to, among other things, satisfy their contractual  
24 obligations to their customers and continue to contract for and complete the construction and  
25 sale of homes, free and clear of liens, is critical to the Debtors' operations. On April 10, 2009  
26 the Bankruptcy Court entered an interim order granting the Home Sale Motion [Rhodes  
27 Docket No. 20], and subsequently entered a final order, with certain modifications, on April  
28 17, 2009 (the "Final Home Sale Order") [Rhodes Docket No. 77]. Among other things, the  
Final Home Sale Order established that the construction and sale of homes was required to be  
consistent with any cash collateral orders and provided the Debtors' prepetition lenders with  
rights to receive certain information and object to certain lien payments.

1           4.       Insider Compensation Motion

2           As required by the Wages Orders, the Debtors Filed a motion for an order authorizing  
3 the Debtors to pay the salary of the Debtors' president, James M. Rhodes, through June 26,  
4 2009, the time period of the Debtors' 13 week budget, or any such further time period as  
5 authorized by the Court or agreed upon by the First Lien Lenders pursuant to any cash  
6 collateral order entered in these cases [Rhodes Docket Number 94]. The United States Trustee  
7 filed an objection, which was resolved in the order approving the motion on July 21, 2009.

1           5.     Retention of Debtors' Professionals

2           Throughout the Chapter 11 Cases, the Debtors retained certain Professionals to assist  
3 them in carrying out their duties as debtors in possession and to otherwise represent their  
4 interests in the Chapter 11 Cases. These Professionals included: (a) Pachulski Stang Ziehl &  
5 Jones LLP, as general bankruptcy counsel; (b) Larson & Stephens, LLC, as local counsel; (c)  
6 Acceleron Group, LLC, as valuation advisor; and (d) Sullivan Group Real Estate Advisors, as  
7 market research consultant. The Bankruptcy Court entered an order approving certain  
8 procedures for the interim compensation and reimbursement of retained Professionals in the  
9 Chapter 11 Cases.

10           6.     Ordinary Course Professionals

11           The Debtors desired to continue to employ certain professionals such as attorneys and  
12 accountants not involved in the administration of the Debtors' cases (the "Ordinary Course  
13 Professionals") for the same purposes as such services were provided prior to the Petition  
14 Date. Accordingly, pursuant to sections 105(a), 327, 328 and 330 of the Bankruptcy Code and  
15 Bankruptcy Rule 2014(a), the Debtors Filed a motion (the "OCP Motion") seeking entry of an  
16 order authorizing them to retain, employ, and pay Ordinary Course Professionals in the  
17 ordinary course of the Debtors' businesses, on the terms and conditions set forth in the OCP  
18 Motion, and subject to certain monthly payment caps [Rhodes Docket No. 141]. The  
19 Bankruptcy Court entered an order approving the OCP Motion on May 19, 2009 [Rhodes  
20 Docket No. 187].

21           D.     Appointment of the Creditors' Committee

22           On May 26, 2009, the United States Trustee appointed the Creditors' Committee. The  
23 members of the Creditors' Committee are: G.C. Wallace, Inc., Interstate Plumbing & Air  
24 Conditioning, M&M Electric, Inc. and Southwest Iron Works, LLC. The Creditors'  
25 Committee retained the law firm of Parsons Behle & Latimer as counsel.

26           E.     Claims Bar Dates

27           On April 30, 2009, each of the Debtors Filed their schedules of assets and liabilities  
28 and statement of financial affairs as amended from time to time (collectively, the "Schedules")  
with the Bankruptcy Court. Interested parties may review the Schedules at the office of the  
Clerk of the United States Bankruptcy Court for the District of Nevada, Southern Division,  
300 Las Vegas Boulevard South, Las Vegas, NV 89101 or by visiting  
[www.omnimgt.com/rhodes](http://www.omnimgt.com/rhodes).

By notice dated March 31, 2009, the Court set the claims bar date for 90 days after the  
date first set for the meeting of creditors, or August 5, 2009 (the "Bar Date Notice") [Heritage  
Docket No. 3]. The Bar Date Notice was served on the Debtors' master mailing lists on April  
17, 2009. Accordingly, the following Bar Dates have been established:

- (i)     August 5, 2009 for all Holders of General Unsecured Claims against all  
Debtors;

(ii) September 28, 2009 for all Holders of Claims of Governmental Units for all Debtors except the following three Debtors: Rhodes Homes Arizona, L.L.C. (Case No. 09-14882); Tuscany Golf Country Club, LLC (Case No. 09-14884); and Pinnacle Grading, LLC (Case No. 09-14887);

(iii) September 29, 2009 for all Holders of Claims of Governmental Units for the following three Debtors: Rhodes Homes Arizona, L.L.C. (Case No. 09-14882); Tuscany Golf Country Club, LLC (Case No. 09-14884); and Pinnacle Grading, LLC (Case No. 09-14887).

On May 27, 2009, the Debtors Filed the Motion of Debtors for Entry of an Order Authorizing the Debtors to Publish Notice of the Bar Dates and Approving the Form of the Publication Notice Pursuant to FRBP 2002(I). The Bankruptcy Court entered an order (the "Bar Date Publication Order") granting the motion on July 9, 2009 [Rhodes Docket Number 305]. The Bar Date Publication Order authorized the Debtors to publish notice of the Bar Dates in the *Las Vegas Review-Journal*, the *Kingman Daily Miner* and such other local publications as the Debtors deemed appropriate within ten days of the entry of the Bar Date Publication Order.

The First Lien Steering Committee and the Debtors have been reviewing various Proofs of Claim and will continue to review and evaluate each Proof of Claim Filed prior to the applicable Bar Date to determine whether grounds exist to object to the allowance of such Claims. The First Lien Steering Committee believes that the Claims asserted against the Debtors will likely be resolved and/or reduced to aggregate amounts that approximate the estimates for Allowed Claims set forth herein. However, the actual aggregate amounts of the Allowed Claims in any Class may differ significantly from the First Lien Steering Committee's estimates thereof and any variance from such estimates may affect distributions in certain Classes.

#### Article IV. SUMMARY OF THE PLAN

THIS SECTION PROVIDES A SUMMARY OF THE STRUCTURE AND MEANS FOR IMPLEMENTATION OF THE PLAN AND THE CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS UNDER THE PLAN, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN (AS WELL AS THE EXHIBITS THERETO AND DEFINITIONS THEREIN).

THE STATEMENTS CONTAINED IN THE DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN THE DOCUMENTS REFERRED TO IN THE PLAN. THE STATEMENTS CONTAINED IN THE DISCLOSURE STATEMENT DO NOT PURPORT TO BE PRECISE OR COMPLETE STATEMENTS OF ALL THE TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO IN THE PLAN, AND REFERENCE IS MADE TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENT OF SUCH TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO IN THE PLAN.

1 THE PLAN ITSELF AND THE DOCUMENTS IN THE PLAN CONTROL THE  
 2 ACTUAL TREATMENT OF CLAIMS AND INTERESTS UNDER THE PLAN AND WILL,  
 3 UPON THE OCCURRENCE OF THE EFFECTIVE DATE, BE BINDING UPON ALL  
 4 HOLDERS OF CLAIMS AND INTERESTS, THE ESTATES, ALL PARTIES RECEIVING  
 5 PROPERTY UNDER THE PLAN AND OTHER PARTIES IN INTEREST. IN THE EVENT  
 6 OF ANY CONFLICT BETWEEN THE DISCLOSURE STATEMENT AND THE PLAN OR  
 7 ANY OTHER OPERATIVE DOCUMENT, THE TERMS OF THE PLAN AND/OR SUCH  
 8 OTHER OPERATIVE DOCUMENT SHALL CONTROL.

9 A. Overview of a Chapter 11 Plan

10 The consummation of a chapter 11 plan is the principal objective of a chapter 11 case.  
 11 A chapter 11 plan sets forth the means for satisfying claims against, and interests in, a debtor.  
 12 Confirmation of a chapter 11 plan by a bankruptcy court makes the plan binding upon the  
 13 debtor, any person or entity acquiring property under the plan and any holder of claims against  
 14 or interests in the debtor, whether or not such holder of claims or interests (1) is impaired  
 15 under or has accepted the plan or (2) receives or retains any property under the plan. Subject  
 16 to certain limited exceptions and other than as provided in the plan itself or the confirmation  
 17 order, a confirmation order discharges the debtor from any debt that arose prior to the date of  
 18 confirmation of the plan and substitutes therewith the obligations specified under the  
 19 confirmed plan.

20 A chapter 11 plan may specify that the legal, contractual and equitable rights of the  
 21 holders of claims or interests in certain classes are to remain unaltered by provisions of the  
 22 plan. Such classes are referred to as "unimpaired" and, because of such favorable treatment,  
 23 are deemed to accept the plan. Accordingly, the Debtors need not solicit votes from the  
 24 Holders of Claims or Interests in such Classes. A chapter 11 plan also may specify that certain  
 25 classes will not receive any distribution of property or retain any claim against a debtor. Such  
 26 classes are deemed not to accept the plan and, therefore, need not be solicited to vote to accept  
 27 or reject the plan. Any classes that are receiving a distribution of property under the plan but  
 28 are not "unimpaired" will be solicited to vote to accept or reject the plan.

Section 1123 of the Bankruptcy Code provides that a chapter 11 plan shall classify  
 claims against and interests in the debtor. In compliance therewith, the Plan divides Claims  
 and Interests into various Classes and sets forth the treatment for each Class. The Plan  
 Proponent is also required, as discussed above, under section 1122 of the Bankruptcy Code, to  
 classify Claims and Interests into Classes that contain Claims and Interests that are  
 substantially similar to the other Claims and Interests in such Classes. The First Lien Steering  
 Committee believes that the Plan has classified all Claims and Interests in compliance with  
 the provisions of section 1122 of the Bankruptcy Code, but it is possible that a Holder of a  
 Claim or Interest may challenge the classification of Claims and Interests and that the  
 Bankruptcy Court may find that a different classification is required for the Plan to be  
 confirmed. In such event, the First Lien Steering Committee intends, to the extent permitted  
 by the Bankruptcy Court and the Plan, to make such reasonable modifications of the  
 classifications under the Plan to permit Confirmation and to use the Plan acceptances received  
 in this solicitation for the purpose of obtaining the approval of the reconstituted Class or  
 Classes of which the accepting Holder is ultimately deemed to be a member. Any such